
Senate Budget and Fiscal Review—Denise Moreno Ducheny, Chair
SUBCOMMITTEE NO. 1 on Education



Subcommittee No. 1
Chair, Jack Scott
Member, Bob Margett
Member, Gloria Romero

April 8, 2008
1:30 pm – Room 113

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I. HASTINGS COLLEGE OF THE LAW (Item 6600)

Hastings College of Law Budget Summary				
<i>(Dollars in Thousands)</i>				
	Revised 2007-08	Proposed 2008-09	Change	
			Amount	Percent
State Operations				
General Fund	\$10,631	\$10,115	-\$516	-4.9%
State Lottery Education Fund	178	178	—	—
University Funds (fees, overhead, publications other)	29,577	33,830	4,253	14.3%
Totals	\$40,386	\$44,123	\$3,737	9.3%

The Governor's Budget proposes a total 2008-09 General Fund budget of \$10.1 million General Fund for Hastings College of Law. Included in this amount is a reduction of \$1.1 million (primarily in the form of an unallocated cut).

Background. Hastings College of the Law was founded in 1878 by Serranus Clinton Hastings, the first Chief Justice of the California Supreme Court, with a \$100,000 donation to the University of California to start a law school. Justice Hastings attached two conditions to his donation: (1) the school must remain in San Francisco, near the courts; and (2) the school must be governed by its own board of directors. Thus, although Hastings is affiliated with the University of California, it is a stand-alone, independently governed law school.

Funding. Since the inception of the higher education funding "compacts" (which began under Governor Wilson), the Administration and the Legislature have traditionally afforded the same funding provisions that were applied to the University of California and the California State University to Hastings. In sound budget years, this practice has afforded Hastings moderate General Fund increases to adjust for price increases, as evidenced by General Fund appropriations averaging \$14.5 million between 1999 and 2003. However, the tight budget years that followed showed a steady decline in state support for Hastings, reaching an all-time low in 2004-05 when the General Fund provided \$8.1 million.

The "compact" provisions have not always suited the unique needs of Hastings. For example, given that student enrollment levels at Hastings remain fairly constant, it has never benefited from the enrollment growth provisions negotiated by the UC and CSU. In tight budget years as well, Hastings faces unique challenges that are attributable to both its small size and its stand-alone status. While other colleges and UC campuses offer myriad academic programs and are able to disperse cuts across many programs and functions, Hastings is a single-subject college that does not operate on the economies of scale that are present on other campuses.

Fees. The Hastings Board of Directors has the authority to increase student fees, and intends to implement an 18 percent increase for the 2008-09 academic year. In the past, fee increases have been used to directly offset General Fund reductions and/or retain students' current level of service.

Recently however, Hastings has determined that fee increases should also allow for an *increased* level of educational services to students. Thus, Hastings is initiating a plan to use a portion of the increased student fee revenue to increase the faculty-to-student ratio, which is a key component to creating and assessing the quality of the law school experience.

Staff recommends that the committee: "hold open" funding for this item pending an update of the General Fund at the May Revision. **ACTION: Committee Held Issue Open.**

II. CALIFORNIA STATE LIBRARY (Item 6120)

California State Library Budget Summary (General Fund)				
<i>(Dollars in Thousands)</i>				
	Revised 2007-08	Proposed 2008-09	Change	
			Amount	Percent
State Operations				
Support/operating budget	\$12,107	\$14,677	2,570	21.2%
Lease-revenue bonds	2,360	2,389	29	1.2%
Repairs for Sutro Library	17	15	-2	-11.8%
<i>Subtotals</i>	<i>\$14,484</i>	<i>\$17,081</i>	<i>\$2,597</i>	<i>17.9%</i>
Local Assistance				
CA Civil Liberties Public Education Prog.	\$500	\$450	-50	-10%
California Newspaper Project	240	216	-24	-10%
California Library Services Act	14,342	12,908	-1,434	-10%
CA English Acquisition & Literacy Prog.	5,064	4,558	-506	-10%
Public Library Foundation	14,360	12,924	-1,436	-10%
<i>Subtotals</i>	<i>\$34,506</i>	<i>\$31,056</i>	<i>-\$3,450</i>	<i>-10%</i>
Totals	\$48,990	\$48,137	-853	-1.7%

The Governor's Budget proposes a total of \$72.6 million for the California State Library's operations and the various local assistance programs. Of that amount, \$45.8 million is from the General Fund, the remainder comes from other sources, including state special funds, federal funds, and bond funds.

The Governor's Budget includes funding for the following one-time expenses prior to implementing the proposed ten percent across-the-board reduction: (1) Phase 2 of the Integrated Library System Replacement Project; and (2) Temporary Space and Moving expenses related to the renovation of the historic Library and Courts Building.

Background. The California State Library provides library and information services to the legislative and executive branches of state government, members of the public, and California public libraries. In addition, the State Library: (1) administers and promotes literacy outreach programs; (2) develops

technological systems to improve resource sharing and enhance access to information; and (3) administers the Public Library Foundation, which, via a statutory formula, distributes state funding to support basic services at local libraries.

A. Integrated Library System Replacement Project. The Governor's Budget provides \$1.4 million in funding for the second year of a three-year information technology project. According to the State Library, the Integrated Library System Replacement Project is necessary to keep the State's library records automated in the face of the current vendor's phase-out of the existing information technology system. The current system has been in operation since 1989 and while it has served the State Library well, the State Library indicates that the vendor who designed and supports the system will cease upgrading it or providing any maintenance or support.

The total cost for the project is \$2.5 million; however, the State Library intends to redirect approximately \$937,000, leaving the balance of the project to be funded from additional state resources. The state provided \$52,000 in the current year for procurement-related activities; in year three, the project would require an additional \$136,000. On an ongoing basis, the State Library will need \$250,000 annually to maintain the new system.

Staff recommends that the committee: "Approve" \$1.42 million in one-time funding to continue replacement of the Library's Integrated System Replacement Project. **ACTION: Committee Approved (3-0).**

B. Temporary Space and Moving Expenses. In 2008-09 the historic Library and Courts building will undergo a significant renovation aimed at providing for fire, life, safety, and infrastructure improvements, as well as the rehabilitation of historically-significant architectural elements of the 1928 Library and Courts building, which is a registered federal and state landmark.

The Library is seeking \$2.6 million for the temporary relocation of both its staff and the contents of its collections (books, materials, historical artifacts, and artwork), which must be moved and, in some cases, stored in special conditions due to their notable value (the historic artifacts that is, not the people). Costs include such items as: moving expenses; art storage facilities; modular office space; installation of telephone and data lines.

Staff recommends that the committee: "Approve" \$2.6 million in one-time "swing space" funding associated with the refurbishment of the Historic Library and Courts Building. **ACTION: Committee Approved (3-0).**

C. Public Library Foundation and other Local Assistance Programs.

1. Public Library Foundation (PLF). The Governor's Budget proposes to *reduce* the amount of funding available for the PLF by ten percent (or \$1.4 million), bringing total funding in

2008-09 to \$12.9 million. This program provides core operational assistance to local libraries and is used to support library staffing; maintain hours of operation; develop and expand library-based programs such as after-school reading programs and homework assistance centers; and purchase books and materials.

At its peak (in 2000-01), the state appropriated \$56.9 million to the Public Library Foundation. Since then, local libraries have experienced a rapid decline in support for the program, equating to an approximate 75 percent reduction over six years.

Statute dictates that in order for a local library to receive funding from this program the library must maintain the same level of local funding as was provided in the prior year; thus any reductions to library spending by local governments would cause them to be disqualified from receiving money from the Public Library Foundation. As such, the committee may wish to consider either a full or partial waiver of this Maintenance-of-Effort requirement.

Staff recommends the Governor's funding proposal be "Approved as Budgeted", and that the committee staff work with the State Library to examine options related to waiving the Public Library Foundation local Maintenance-of Effort requirements. **ACTION: Committee Held Open.**

2. Other Local Assistance Programs. As noted in the chart on Page 3 of this document, the remainder of the Local Assistance programs administered by the State Library (including the Civil Liberties Public Education Program; California Newspaper Project; California Library Services Act/Transaction-Based Reimbursements; and the California English Acquisition and Literacy Program) are slated to be reduced by ten percent. It is important to note that both the Transaction-Based Reimbursement Program and the English Language/Literacy Program receive federal matching funds. The Administration indicates that it is currently in the process of working with the State Library to request a waiver from the federal government for the minimum state matching funds requirement. *Without a federal waiver, the state faces a loss of approximately \$1.8 million in federal funds.*

Staff recommends: While these programs have great merit, the current condition of the General Fund necessitates program reductions. Thus, staff recommends that the committee "approve" the reductions proposed for the Civil Liberties Public Education Program as well as the California Newspaper Project. **ACTION: Committee Held Open.**

Further, staff recommends that the committee: "hold open" funding for both the English Language/Literacy Program and the Transaction-Based Reimbursement Program, pending additional information regarding the status of obtaining a federal waiver. **ACTION: Committee Held Open.**

III. CALIFORNIA STUDENT AID COMMISSION (Item 7980)

Student Aid Commission Budget Summary (includes Gov. budget balancing reductions)				
(Dollars in Millions)				
	2007-08 Revised	2008-09 Proposed	Change	
			Amount	Percent
Expenditures				
<u>State Operations</u>	\$15.8	\$14.6	\$-1.2	-7.7%
<u>Cal Grant programs</u>				
Entitlement	\$664.7	\$773.9	\$109.2	16.4%
Competitive	117.1	57.5	-59.6	-50.9%
Pre-Entitlement	0.5	0.2	-0.3	-68.8%
Cal Grant C	7.9	7.9	—	-0.5%
<i>Subtotals—Cal Grant</i>	<i>\$790.2</i>	<i>\$839.5</i>	<i>\$49.3</i>	<i>6.2%</i>
APLE ^a	\$40.7	\$40.6	-\$0.1	-0.4%
Graduate APLE	0.4	0.4	—	—
National Guard APLE	0.2	0.3	0.1	48.5%
State Nursing APLE – faculty	—	0.2	0.2	—
State Nursing APLE – state facilities	—	0.1	0.1	—
Law enforcement scholarships	0.1	0.1	—	—
Cal-SOAP	6.4	5.7	-0.7	-10.0%
Cash for College Program	—	0.2	0.2	—
Other Grant Programs (including: Chafee; Child Development Teacher; and Byrd Scholarship programs)	19.5	19.5	—	—
<i>Sub Total: Financial Aid Programs</i>	<i>\$857.5</i>	<i>\$906.6</i>	<i>\$49.1</i>	<i>5.7%</i>
Grand Totals	\$873.3	\$921.3	\$48.0	5.5%
Funding Sources				
General Fund	\$842.9	\$890.5	\$47.6	5.7%
Federal Trust Fund	10.6	11.0	0.4	3.1%
Reimbursements	19.8	19.8	—	—
^a Assumption Program of Loans for Education.				

The Governor's 2008-09 Budget proposes a total of \$921.3 million in expenditures from all funding sources (\$890.5 million General Fund) for the California Student Aid Commission. While this proposal reflects a net \$48 million or a 5.5 percent increase above estimated current-year expenditures the Governor does propose to eliminate a key component of the Cal Grant program: the Competitive Cal Grant Program, which results in \$57.4 million in savings.

Staff notes that, at the March 13, 2008 hearing of the full Senate Committee on Budget and Fiscal Review, the committee had a substantial discussion of the impact of the Governor's Cal Grant proposals, in particular, the Governor's proposal to phase-out the Competitive Cal Grant proposal. Given that prior hearing, issues related to the Cal Grant program, are not slated for discussion at this time.

Other adjustments to the Student Aid Commission's budget include a \$1.6 million reduction to the state operations budget of the Commission and a \$637,000 reduction to the California Student Opportunity and Access Program (Cal-SOAP). The Governor's proposal further includes minimal *baseline* adjustments to the various loan assumption programs (APLE; State Nursing APLE-faculty; and State Nursing APLE-State Facilities). Partially offsetting these reductions is a net \$1 million increase to address operational issues related to the sale of EdFUND. Federal Funds (\$200,000) are provided to support the Cash for College Program, which had previously been funded with EdFUND dollars.

In addition, the Governor proposes to issue 7,200 new Assumption Program of Loans for Education (APLE) warrants in 2008-09, this represents a *decrease* of 800 awards (10 percent) from the amount authorized in the current year.

A. Status Report on the Pending Sale of EdFUND (*Department of Finance will provide an update*). Current law (Chapters 182 and 184; Statutes of 2007) authorizes the Director of Finance, in consultation with the State Treasurer to sell (or enter into an alternative financial arrangement of a sale) the state student loan guarantee program (EdFUND).

Background. Operating under California statute, EdFUND is a nonprofit "auxiliary" organization of the California Student Aid Commission which administers the Federal Family Education Loan Program (FFELP) on behalf of the state. Student loans under the FFELP are guaranteed by the federal government in order to ensure that lenders themselves do not bear the risk associated with lending money to students (who traditionally have no credit or payment history) and that students do not "pay" for this increased risk in the form of high loan fees and interest rates. In addition to FFELP, the federal government also operates a Direct Lending program which places the federal government in the role of both lender and guarantor by directly lending money to students via their educational institutions.

Colleges and universities which offer student loan programs have a choice between a variety of FFELP "guarantors" (EdFUND is one of several guaranty agencies in the country) or the federal Direct Lending program. In the mid-1990s, the Legislature and the Governor explicitly granted the Student Aid Commission's request to statutorily establish EdFUND, freeing the organization of state bureaucratic constraints, so that it could actively participate in the competitive student lending and guaranty marketplace.

B. Transitional Issues Related to EdFUND Sale. Since the inception of EdFUND, the Student Aid Commission and EdFUND have shared a variety of administrative and selective programmatic functions and costs, in order to achieve better economies of scale. With the pending sale of EdFUND, a portion of these activities will need to come back "in house". As such, the Governor is proposing to *augment* the Commission's budget by \$2 million and 10.5 positions to account for the workload and related staff that will need to be "reclaimed" by the Commission. Further complicating matters, are the remaining 20 civil service employees that are on the Student Aid Commission's payroll, but were assigned to work at EdFUND, the bulk of which are long-time civil servants who are performing functions directly related to processing student loans.

Partially off-setting the above-noted increase is a reduction of \$1 million related to elimination of the Commission's Federal Policy and Programs Division. Given that the Commission's oversight of EdFUND will terminate with its sale, the Department of Finance has determined that this division is no longer necessary. However, the Budget Bill does contain provisional language allowing for the Commission to retain this division and related funding in the event that the sale of EdFUND is not completed before the end of the current fiscal year. **ACTION: Committee Held Open.**

C. Assumption Program of Loans for Education (APLE). The Governor's budget authorizes 7,200 new APLE loan assumption warrants (a decrease of 800 from the current year, reflecting the Administration's proposal to reduce programs by ten percent across-the-board).

In past years, both the Department of Finance and the LAO have noted that the APLE program has been underutilized. According to the LAO, approximately 10 percent of APLE warrants go unused. Previously, DOF has cited this underutilization as a reason to restructure the program and set-aside warrants for the exclusive use of UC and CSU to attract math and science teachers. Thus, the proposed reduction in the number of warrants could be viewed as a "correction" to adjust for the demand for the program.

However, staff notes that the reasons for the programs underutilization remain unclear and may be attributable to myriad statutory set-asides coupled with a difficult to administer program. Rather than further constricting the number of awards, the committee way wish to request that the policy committee examine this issue and work to address the systemic causes of underutilization in the APLE program.

Staff recommends that the committee hold this issue "open" pending the May Revision and the receipt of additional information related to the underutilization of APLE program warrants. **ACTION: Committee Held Open.**

D. California Student Opportunity and Access Program (Cal-SOAP). The Governor's budget authorizes \$5.7 million in funding for the Cal-SOAP program, a decrease of \$637,000 from the current year. Cal-SOAP is administered by the Student Aid Commission and provides financial aid outreach through regionally-coordinated consortia. Previously funded with dollars

from EdFUND, Cal-SOAP's budget declined from \$8.6 million to the current-year level of \$6.4 million.

As part of its April Finance Letter revision process, the Department of Finance is proposing to shift funding for Cal-SOAP *from* the General Fund *to* federal funds (due to an increase in dollars available under the federal College Access Challenge Grant); set-aside \$1 million for public awareness and outreach activities related to career technical education; and require the Commission to work with the California Department of Education and the California Community Colleges Chancellor's Office in determining the usage of this \$1 million.

Staff notes that, among other issues, it remains unclear if Cal-SOAP is the appropriate entity to conduct the outreach activities requested by the Department of Finance, and thus recommends that the committee hold this issue "open" pending further discussion. **ACTION: Committee Held Open.**

IV. CALIFORNIA POSTSECONDARY EDUCATION COMMISSION (Item 6420)

Governor's 2008-09 CPEC Budget Proposal				
<i>(Dollars in Thousands)</i>				
	2007-08 Budgeted	2008-09 Proposed	Change	
			Amount	Percent Change
CPEC				
General Fund	\$2,209	\$2,005	-\$204	-9.2%
Federal Funds	9,032	9,038	5	0.5
Reimbursements	3	3	--	--
Totals	\$11,244	\$11,046	-\$199	-1.8%

The Governor's budget proposal for the California Postsecondary Education Commission (CPEC) makes several baseline adjustments and then reduces this "workload" budget by the Administration's proposed ten percent across-the-board cut.

In light of the reduced level of funding the Administration proposes for CPEC, the Governor's Budget proposes to *prioritize* CPEC's various statutory responsibilities by calling attention to three specific functions in Budget Bill Language and establishing these functions as priorities. This proposal is virtually identical to the prioritization language the Administration included in its 2007-08 proposal.

Lastly, in the face of this unallocated reduction, staff notes that the California Postsecondary Commission, which has the statutory authority to set the compensation levels for its Executive Director, recently opted to increase the Executive Director's salary by two percent; taking his current \$165,000 salary to \$168,300. While statute dictates that the Commission take into account the salary of directors of other state's higher education coordinating bodies, staff notes that a salary "survey" should not be the principle factor in determining compensation levels. Rather, performance, not just of the Executive Director, but of CPEC as a whole, and the ability of the organization to absorb such salary increases should also be determining factors. While the percentage increase is relatively minor, funds for this raise are not explicitly provided in the Governor's Budget and will only exacerbate the impact of CPEC's unallocated reduction.

Prioritization of CPEC Responsibilities.

The Governor's Budget proposal includes language delineating the following three priorities as being the *highest* for CPEC: (1) conducting all reviews and recommendations of the need for new institutions for public higher education; (2) conducting all reviews and recommendations of the need for new [academic] programs within the public higher education segments; and (3) serving as the designated state education agency to carry out federal educational programs, as required in statute. When queried about its position on the inclusion of these "priorities" in the Budget Bill, CPEC has expressed its intent to carry out *all* of its statutory requirements, regardless of the amount of funding appropriated.

Current statute assigns a number of different responsibilities to CPEC related to the oversight and coordination of higher education activities. In addition to its statutory tasks, CPEC is occasionally asked to perform other duties by the Governor and the Legislature (such as convening workgroups or studying a particular issue). The Commission also initiates its own agenda and activities.

Staff finds that the Administration's proposal to "prioritize" CPEC's functions begs the larger question of CPEC's role in state government. This question that has been explored many times in the past five years, as illustrated by the following timeline:

- *May 14, 2002*, Governor Davis proposes to eliminate almost all General Fund support for CPEC at the May Revision. The Legislature stepped in and restored a portion of the reduction and called for the Legislative Analyst's Office (LAO) to convene a workgroup to develop recommendations for CPEC's statutory mission.
- *Spring of 2002*, the Legislature's Joint Committee on the Master Plan for Education proposes replacing CPEC with a new "California Education Commission" and moving many of CPEC's responsibilities to the Office of the Governor.
- *January 2003*, the LAO completes its examination of CPEC's statutory workload in comparison with the fiscal resources it has available, and determines that CPEC is unable to effectively carry out a number of its statutory functions.
- *January 10, 2003*, Governor Davis proposes reducing CPEC's funding by an additional \$1.4 million, leaving only three General Fund positions. The LAO recommends support of the Governor's proposal.

- *May 14, 2003*, Governor Davis proposes to consolidate CPEC, the Student Aid Commission, and the Bureau for Private Postsecondary and Vocational Education into a single Administration body. Contents of the proposal were included in Assembly Bill 655 (Liu), which was held on the Senate Appropriations Committee Suspense file.
- *July 2003*, Final Budget Act includes the restoration of General Fund support for CPEC (\$1.9 million).
- *January 2005*, Governor Schwarzenegger's California Performance Review (CPR) recommends eliminating CPEC and transferring its functions to a new *Division of Higher Education and Financial Aid* within the Governor's Secretary for Education's Office.
- *January 2007*, Governor Schwarzenegger proposes Budget Bill Language to prioritize CPEC's statutory responsibilities. Budget subcommittee rejects language and defers to the policy committee process.
- *January 2008*, Governor Schwarzenegger reintroduces Budget Bill Language to prioritize CPEC's statutory responsibilities.

Staff recommends that the committee "hold open" the above-noted issues, pending further discussion of CPEC's mission and the condition of the General Fund. **ACTION: Committee Held Open.**

V. PROPOSED CONSENT

Staff recommends "approval" of the following items: **ACTION: Committee Approved (3-0).**

1. Item 6120-011-0001 Support, California State Library. *April Finance Letter; Redirection of Federal Funds* (Issue 487) -\$168,000
2. Item 6120-011-0020 State Law Library, California State Library. Payable from State Law Library Special Account. \$706,000
3. Item 6120-011-0890 Support, California State Library. Payable from the Federal Trust Fund. \$7,115,000
4. Items 6120-011-3085 Support, California State Library. *April Finance Letter; Add Item to Appropriate Funds for Mental Health Research Activities* (Issue 488) \$169,000
5. Item 6120-011-6000 Support, California State Library. Payable from the California Public Library Construction and Renovation Fund. \$2,407,000
6. Item 6120-011-6029 Support, California State Library, California Cultural and Historical Endowment. \$972,000 (including *April Finance Letter* (Issue 489)).
7. Item 6120-012-0001 Support, California State Library, Debt Service. \$2,389,000

8. Item 6120-151-0483 Local Assistance, California State Library, Telephonic Services. Payable from the California Deaf and Disabled Telecommunications Program, Administrative Committee Fund. \$552,000
9. Item 6120-211-0890 Local Assistance, California State Library, Library Development Services. Payable from the Federal Trust Fund. \$12,518,000
10. Item 6120-490 Reappropriation, California State Library, ~~Delete Item from Budget Bill to reappropriate expenditure authority for California Cultural and Historical Endowment.~~
11. Item 6120-~~490~~ 495 Reversion, California State Library, *April Finance Letter; Add Item* (Issue 489) to revert unexpended funds from the California Cultural and Historical Endowment.
12. Item 6420-001-0890 Support, California Postsecondary Education Commission, payable from the Federal Trust Fund. \$459,000
13. Item 6420-101-0890 Local Assistance, California Postsecondary Education Commission, payable from the Federal Trust Fund. \$8,579,000
14. Item 7980-001-0890 State Operations, California Student Aid Commission, *Cash for College Program*. \$130,000.
15. Item 7980-101-0890 Local Assistance, California Student Aid Commission, Federal Trust Fund (including \$200,000 for *Cash for College Program*). \$10,822,000.
16. Item 7980-495 Reversion, California Student Aid Commission.